

Message Text

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FOR ASST SECRETARY ROGERS FROM AMBASSADOR

EO 11652: XGDS

TAGS: EFIN ECON MX

SUBJECT: CURRENT RUN ON PESO

REF MEXICO 5428

1. SUMMARY: CURRENT RUN ON PESO APPEARS TO HAVE BEGUN WHEN FUROR OVER HUMAN SETTLEMENTS LAW, ADDED TO OTHER FEARS OF PRIVATE SECTOR, BECAME PUBLIC ISSUE ABOUT MARCH 26. RUN WAS AUGMENTED BY TRADITIONAL PRE-EASTER CAPITAL FLIGHT IN COMMEMORATION OF EASTER SATURDAY DEVALUATION IN 1954. ADDING TO NERVOUSNESS WAS WALL ST. JOURNAL STORY OF APRIL 13. WE BELIEVE THAT CAPITAL FLIGHT REFLECTS INCREASED POLITICAL TENSION IN MEXICO AS MUCH AS IT REFLECTS FEARS OF DEVALUATION. ECONOMIC PROGRAM OF GOM, DESIGNED TO AVOID NEED FOR DEVALUATION, APPEARS TO BE WORKING THOUGH HARD DATA IS NOT AVAILABLE, AND PUBLIC EXPLANATION HAS BEEN FUZZY. ON OTHER HAND, THERE IS BASIS FOR DOUBT AS TO WHETHER GOM ECONOMIC PROGRAM WILL WORK. MONEY THAT LEFT PRIOR TO EASTER HAS NOT YET RETURNED IN ANY SIZEABLE AMOUNT ACCORDING TO LOCAL BANKING SOURCES. GOM, PERHAPS RIGHTLY, BELIEVES DEVALUATION IN CURRENT CIRCUMSTANCES COULD AGGRAVATE POLITICAL PROBLEMS. WE DO NOT KNOW MAGNITUDE OF CAPITAL FLIGHT AND DOUBT WHETHER USG STATEMENT ALONE WOULD HAVE

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MUCH INFLUENCE. TO REDUCE OR STOP CAPITAL FLIGHT, GOM

HAS TO CONVINCE MEXICANS THAT THEIR CAPITAL IS SAFE HERE
AND THAT THE ECONOMIC PROGRAM FOR 1976 IS WORKING AND
WILL OBTAIN NEED FOR DEVALUATION. END SUMMARY.

2. CAPITAL FLIGHT ON MANAGEABLE SCALE HAS BEEN AN ONGOING
PHENOMENON IN MEXICO AT LEAST SINCE THE RESIGNATION OR
FIRING OF FINANCE MINISTER HUGO MARGAIN IN MID-1973. FLIGHT
IS DUE FOR MOST PART TO FEARS THAT A LEFTIST GOVERNMENT
WOULD SEIZE WEALTH THROUGH TAXATION OR OTHER MEANS.
CAPITAL FLIGHT HAS BEEN AUGMENTED BY THE INCREASING VOLUME
OF DEVALUATION RUMORS, PARTICULARLY PRIOR TO PRESIDENT'S
STATE OF THE UNION MESSAGE (SEPT. 1) AND EASTER
WEEKEND (DATE OF 1954 DEVALUATION). BASIS FOR RUMORS IS
MORE RAPID INCREASE IN MEXICAN PRICES THAN PRICES IN U.S.,
ITS MAJOR TRADING PARTNER. THIS IS
DUE LARGELY TO EXCESSIVE SPENDING OF ECHEVERRIA
REGIME. MOST RECENT INCREASE IN CAPITAL FLIGHT APPEARS
TO HAVE BEGUN ABOUT MARCH 26 WHEN FUROR OF PRIVATE SECTOR
GROUPS OVER PROPOSED HUMAN SETTLEMENTS LAW HIT THE
NEWSPAPERS. OUTFLOW INCREASED BY TRADITIONAL PRE-EASTER
NERVOUSNESS COUPLED WITH TRANSFER OF DEVALUATION RUMORS
FROM WORD-OF-MOUTH TO RESPECTABLE NEWSPAPERS,
PARTICULARLY SUBSEQUENT TO APRIL 13 WALL ST. JOURNAL
ARTICLE.

3. GOM HAS SINCE CONDUCTED ACTIVE PRESS CAMPAIGN AGAINST
THESE STORIES, CITING STATEMENTS BY IMF AND IDB OFFICIALS
TO EFFECT THAT PESO AND MEXICAN ECONOMY ARE STRONG.

4. APRIL 26 NEW YORK TIMES ARTICLE WHICH, UNLIKE WALL ST.
JOURNAL ARTICLE, WAS REPRINTED BY EXCELSIOR, CAUSED STRONG
REACTION. LEFTIST EL DIA REPORTED IT UNDER HEADLINE
QUOTE TIMES JOINS CAMPAIGN TO PROVOKE PESO DEVALUATION.
END QUOTE CONSPIRACY THEORY ALSO USED
PUBLICLY BY PRESIDENT IN RESPONSE TO QUESTION ON JOURNAL
ARTICLE.

5. TODAY'S PRESS HAS TWO ARTICLES OF INTEREST. ONE IS
OBVIOUSLY GOM-INSPIRED AP ITEM QUOTING UNNAMED GOM OFFICIAL
TO EFFECT THAT GOM HAS MADE DECISION NOT TO DEVALUE. ANONYMOUS
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SPOKESMAN SAID OIL IS UNDERPINNING OF MEXICAN ECONOMY AND
THAT MEXICO COULD DOUBLE OVERNIGHT ITS PETROLEUM EXPORTS.
SECOND ITEM IS DENUNCIATION OF INTERNATIONAL CONSPIRACY OF
COMMUNIST TYPE AGAINST THE MEXICAN ECONOMY BY LEADER OF MEXICAN
CHAMBERS OF COMMERCE.

6. WE DO NOT HAVE ESTIMATE OF VOLUME OF CAPITAL FLIGHT
SINCE MARCH 26, BUT PRESUME IT MUST EXCEED \$500 MILLION

BY NOW. MONEY THAT LEFT BECAUSE OF PRE-EASTER DEVALUATION FEARS HAS NOT RETURNED, ACCORDING TO LOCAL BANKERS. VISITORS TO BORDER REPORT U.S. STORES ARE REFUSING TO TAKE PESOS OR DOING SO ONLY WITH LARGE DISCOUNT. OUR ESTIMATE PRESUMES CAPITAL FLIGHT EXCEEDS \$360 MILLION FED SWAP DRAWING PRIOR TO EASTER, BUT IS NOT SUBSTANTIALLY GREATER AS GOM HAS NOT ASKED TO DRAW ON TREASURY SWAP TO OUR KNOWLEDGE.

7. WE BELIEVE CURRENT CAPITAL FLIGHT REFLECTS POLITICAL AS MUCH AS PERHAPS MORE THAN ECONOMIC FACTORS. ECONOMIC PROGRAM DESIGNED TO AVOID NEED TO DEVALUE APPEARS TO BE WORKING REASONABLY WELL, THOUGH IT SHOULD BE NOTED THAT ECONOMIC GOALS FOR 1976 - REDUCED PUBLIC SECTOR SPENDING IN REAL TERMS AND DECLINE IN REAL PER CAPITA GDP HAVE NOT BEEN CLEARLY STATED IN PUBLIC, PRESUMABLY FOR POLITICAL REASONS. ALSO, IN LIGHT OF PAST TENDENCY OF THIS GOVERNMENT TO SPEND FAR IN EXCESS OF BUDGETED AMOUNT, IT IS NOT SURPRISING THAT PRIVATE SECTOR WOULD TAKE JAUNDICED VIEW TOWARD GOM PROGRAM. CAPITAL FLIGHT REFLECTS, IN ADDITION TO DEVALUATION FEARS THE GROWING POLITICAL TENSION IN THIS COUNTRY RESULTING FROM THE CONTROVERSY OVER THE HUMAN SETTLEMENTS LAW (MEXICO 4435) THE LAND INVASIONS AND THE GENERAL MALAISE OF PRIVATE SECTOR OVER THEIR FUTURE ROLE IN MEXICAN ECONOMY AND ECHEVERRIA POSTURING. WHILE CAPITAL FLIGHT MAY DIMINISH, REFLOW IS UNLIKELY UNTIL GOM CLEARLY DESCRIBES ITS ECONOMIC POLICIES GEARED TO AVOID DEVALUATION AND CONVINCES PRIVATE SECTOR (PLUS WEALTHY GOM OFFICIALS) THAT THEY WILL BE ABLE TO ACCUMULATE WEALTH. WE DO NOT BELIEVE A USG STATEMENT WITHOUT CONCURRENT ACTIONS BY GOM WOULD BE PARTICULARLY USEFUL.

8. WE SUSPECT SENIOR GOM OFFICIALS VIEWIG CURRENT
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CAPITAL FLIGHT AS POLITICAL PROBLEM AND PROBABLY WISH TO AVOID DEVALUATION ON POLITICAL AS WELL AS ECONOMIC GROUNDS. UNLIKELY THAT DEVALUATION PER SE WOULD STOP CAPITAL FLIGHT. IT MIGHT PROVOKE MORE, PARTICULARLY IF IT WERE DONE IN CRISIS CONDITIONS, AND UNACCOMPANIED BY STRINGENT STABILIZATION PROGRAM. LATTER, IF IT INCLUDED REDUCTIONS IN REAL WAGES AND REAL PUBLIC SECTOR SPENDING WHICH WOULD BE NECESSARY TO ITS SUCCESS, COULD LEAD TO GREATER POLITICAL AGITATION FROM UNIONS AND THE LEFT.
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